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# REPORT TO THE CONGRESS

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## Audit Of Federal Crop Insurance Corporation Fiscal Year 1972

B-114834

Department of Agriculture

B-114834

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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DEC. 22, 1972



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-114834

C To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the audit of the Federal Crop Insurance Corporation, Department of Agriculture, for the fiscal year ended June 30, 1972. 575

The audit was made pursuant to the Government Corporation Control Act (31 U.S.C. 841) and the Federal Crop Insurance Act (7 U.S.C. 1513).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Agriculture; and the Chairman of the Board of Directors, Federal Crop Insurance Corporation.

A handwritten signature in black ink, reading "James B. Stacks".

Comptroller General  
of the United States

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ABBREVIATIONS

FCIC Federal Crop Insurance Corporation

GAO General Accounting Office

D I G E S T

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WHY THE AUDIT WAS MADE

The Government Corporation Control Act and the Federal Crop Insurance Act require the General Accounting Office (GAO) to audit annually the Federal Crop Insurance Corporation and to report to the Congress on the results.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the financial statements present fairly the financial position of the Corporation at June 30, 1972, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws. (See p. 11.)

OTHER MATTERS OF INTEREST

The Corporation reported a net operating gain of \$2.5 million in fiscal year 1972--a net gain from insurance operations of \$17.2 million less operating and administrative expenses of \$14.7 million. (See schedule 2.)

At June 30, 1972, the Corporation's capital was impaired by about \$21.6 million, a significant improvement from the impaired capital position of \$36.2 million at the beginning of the fiscal year. The decrease of the impairment in fiscal

year 1972--\$14.6 million--resulted from the net gain from insurance operations of about \$17.2 million, the payment from premium income of \$2.7 million for operating and administrative expenses, and a reduction in the administrative fund deficit of \$36,267. (See p. 6.)

The Corporation's statement of income and expense (schedule 2) classifies operating and administrative expenses by items, such as personnel, travel, agents' commissions, and supplies and materials. The Corporation prepares, for management purposes, annual cost statements showing, by function, its operating and administrative expenses.

The Corporation's major functions are (1) underwriting, actuarial, and program development, (2) marketing and collections, and (3) contract servicing and claims. These functional costs are reported under three management elements of the Corporation--manager and administration, corporate services, and operations. A table extracted from the Corporation's functional cost statement for fiscal year 1972 is presented on page 9.

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

MATTERS FOR CONSIDERATION  
BY THE CONGRESS

As previously stated, this report is

submitted to the Congress as required by law to disclose the results of the annual audit of the Corporation and such other informa-

tion as considered necessary to inform the Congress on the operations and financial condition of the Corporation.

INTRODUCTION

The Federal Crop Insurance Corporation (FCIC) is a wholly owned Government corporation which was created in 1938 to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and by providing the means for the research and experience helpful in devising and establishing such insurance. FCIC insures crops against practically all causes of crop losses, including weather, insect infestation, and plant disease.

The Federal Crop Insurance Act (7 U.S.C. 1501) authorizes FCIC to fix premiums at rates to cover claims for crop losses and to establish a reserve against unforeseen losses. No authorization is provided for fixing premiums at rates sufficient to cover operating and administrative expenses and the direct cost of loss adjustment--primarily crop inspections and loss determinations. Section 516(a) of the act sets a limitation of \$12 million on funds to be appropriated for each fiscal year to cover FCIC's operating and administrative expenses and also authorizes FCIC to pay the direct cost of loss adjustment and part of its operating and administrative expenses from premium income.

For a number of years the annual appropriation acts have provided funds from two sources--appropriations and funds derived from premium income--with which to pay operating and administrative expenses. FCIC received an appropriation of \$12 million for fiscal year 1972 (85 Stat. 190). The appropriation act provided that FCIC could pay up to \$3,451,000 of the operating and administrative expenses from premium income and further provided for the Secretary of the Treasury to subscribe and pay for an additional \$10 million of the Corporation's capital stock as provided in section 504 of the Federal Crop Insurance Act. The Second Supplemental Appropriation Act, 1972 (86 Stat. 179), provided that FCIC could pay additional operating and administrative expenses up to \$136,000 from premium income.

The management of FCIC is vested in its Board of Directors, which is subject to appointment and general

supervision by the Secretary of Agriculture. The Board consists of the manager of FCIC, two other persons employed in the Department of Agriculture, and two persons experienced in the insurance business who are not otherwise employed by the Government. The principal officials of FCIC during fiscal year 1972 are listed in appendix I.

A major restructuring of FCIC was implemented July 1, 1971. Three new assistant manager positions were created at FCIC headquarters, and the duties and responsibilities formerly handled by 25 State offices and four area offices were consolidated at 14 Sales Center and Contract Service Center locations.

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CHAPTER 2OPERATIONSINSURANCE ACTIVITY FOR FISCAL YEAR 1972

The Corporation's activities in fiscal year 1972 produced a net operating gain of about \$2.5 million, consisting of a net gain from insurance operations of about \$17.2 million less operating and administrative expenses of about \$14.7 million.

The Corporation's insurance program coverage for crop year 1971 totaled about \$949 million--the highest in history--for 23 different agricultural commodities. Premiums on insured crops amounted to about \$47.9 million and indemnities amounted to about \$28.6 million, producing a loss ratio of 0.60. The crop year 1971 loss ratio was the lowest (most favorable) after 1960. Crop year 1971 experience showed a favorable (less than 1.00) loss ratio for 19 of the 23 insured commodities.

Excess premiums over indemnities on the insurance of wheat, corn, tobacco, and soybeans were about \$7.7 million, \$7.3 million, \$3.1 million, and \$1.1 million, respectively. Significantly, the citrus insurance program produced a loss ratio of only 0.66--citrus program loss ratios were 3.00, 1.75, 2.21, and 2.75 for the 4 years prior to 1971. The Florida citrus insurance program resulted in excess premiums of about \$1.3 million with a loss ratio of only 0.03--in crop year 1970 this same program experienced a loss ratio of 3.49, or about \$4.2 million excess indemnities over premiums. The Arizona citrus program had an unfavorable loss ratio of 2.16 for crop year 1971, down from a 7.39 loss ratio in crop year 1970.

Although the crop year 1971 insurance program for most crops resulted in excess premiums, the cotton and peanut programs resulted in significant excess indemnities of about \$2.4 million and \$1.3 million, respectively. The crop year 1971 loss ratio on cotton was 1.65, the sixth consecutive year of an unfavorable loss ratio. The unfavorable experience with the peanut program was only the second occurrence in the past 10 years.

FCIC is authorized by section 508(a) of the Federal Crop Insurance Act to expand its insurance operations to cover not more than (1) three additional agricultural commodities and (2) 150 additional counties each year. In crop year 1971, FCIC reduced the number of insurable commodities from 24 to 23 and reduced its insurance operation from 1,423 to 1,422 counties.

On June 29, 1971, FCIC entered into its fourth annual quota share reinsurance agreement with the Farm Insurance of Puerto Rico, pursuant to section 508(f) of the act. The Corporation provided reinsurance of 17.40 percent of the Puerto Rico hurricane or squall insurance on the following plantations and crops: (1) coffee crops, (2) coffee trees and shade trees, (3) bananas and plantains, (4) orange fruit, orange trees, and papaya fruit, (5) citron crops, and (6) citron trees. This insurance started May 1, 1971, and ended April 30, 1972. The same percentage of reinsurance was provided for the first time on Puerto Rico's new tobacco insurance which, in addition to hurricanes and squalls, covers drought, hail, flood, and fire. The tobacco reinsurance program started November 1, 1971, and ended May 31, 1972.

In fiscal year 1972, FCIC had net income of \$39,443 from its participation in the Puerto Rico insurance program. Since inception in 1968, FCIC has had net income of \$170,408 from this program.

#### IMPAIRMENT OF CAPITAL

At June 30, 1972, the Corporation's capital of \$60 million was impaired by about \$21.6 million, a significant change from the impaired capital position of about \$36.2 million at the beginning of the fiscal year. Fiscal year 1972 was the first operating period after 1967 that produced a reduction in capital impairment. The following table shows the period in which the present impairment has accumulated.

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<u>Fiscal year</u>	<u>Earnings or deficits (-)</u>
1966	\$ -8,873,118
1967	6,211,349
1968	-16,538,784
1969	-6,309,482
1970	-8,821,917
1971	-1,828,194
1972	<u>14,550,526</u>
Net	\$- <u>21,609,620</u>

The capital impairment resulted from a \$21,044,689 deficit from insurance operations--primarily from the use of insurance premiums to pay for operating and administrative expenses and direct cost of loss adjustments (see schedule 4)--and a \$564,931 administrative fund deficit. The administrative fund deficit resulted from noncash items charged to operating and administrative expenses. (See schedule 5.)

The unimpaired capital balance of \$38,390,380 at June 30, 1972, compares with a \$13,839,854 balance at the beginning of the fiscal year. The table below shows the composition of the \$24,550,526 increase for fiscal year 1972.

<u>Capital source</u>	<u>Increase or decrease (-)</u>
Sale of capital stock to the U.S. Treasury	\$10,000,000
Net gain from insurance program operations	17,200,651
Decrease in administrative fund deficit	36,267
Premiums used to pay operating and administrative expenses	<u>-2,686,392</u>
Total fiscal year 1972 increase	<u>\$24,550,526</u>

For fiscal year 1973 the Congress appropriated \$12 million and authorized the use of \$3,654,000 of premium income for payment of operating and administrative expenses.

### INSURANCE EXPERIENCE

As shown in schedule 4, FCIC's crop insurance programs from 1948 through 1971 resulted in excess premiums over indemnities of about \$34.8 million. The excess premiums were generated by gross excess premiums of about \$94.9 million on 16 crops, less gross excess indemnities of about \$60.1 million on 11 crops. Three of the 11 programs showing net excess indemnities have been terminated, as has one program showing net excess premiums.

The wheat and tobacco programs alone have produced excess premiums of \$37.5 million and \$27.3 million, respectively. The wheat insurance program has resulted in an excess premium position in 14 of its 24 years of operation, and tobacco has resulted in excess premiums for 22 of its 24 years of operation.

The major portion of the excess indemnities were incurred by the cotton and citrus insurance programs--\$32 million and \$17.3 million, respectively. The crop year 1971 cotton insurance program produced the sixth consecutive unfavorable loss ratio. During this 6-year period, indemnities exceeded premiums by almost \$36 million. The citrus insurance program for crop year 1971 resulted in excess premiums of about \$877,300; however, after crop year 1967 the citrus excess indemnities over premiums totaled about \$14.1 million.

### OPERATING AND ADMINISTRATIVE EXPENSES

FCIC's comparative statement of income and expense for fiscal years 1971 and 1972 (schedule 2) shows that operating and administrative expenses for fiscal year 1972 amounted to \$14,653,877 compared with \$14,544,416 for fiscal year 1971, an increase of \$109,461.

FCIC's statement of income and expense classifies expenses by items, such as personnel, travel, agents' commissions, and supplies and materials. FCIC prepares, for management purposes, annual cost statements showing, by function, its operating and administrative expenses. In prior

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years costs were reported by such major functions as marketing of insurance, program operations, loss adjustments, and actuarial operations. Because of the July 1971 reorganization, functional elements were realigned and a direct comparison of fiscal year 1971 and 1972 costs by function was not possible.

The following table was extracted from the fiscal year 1972 functional cost statement.

<u>Function</u>	<u>Fiscal year 1972</u>
Underwriting, actuarial, and program development:	
Underwriting operations	\$ 798,170
Actuarial management	426,063
Program development and management	<u>401,205</u>
Total	<u>1,625,438</u>
Marketing and collections:	
Sales promotion	678,919
Selling	3,889,231
Collections	1,576,559
Agents' agreements (note a)	895,763
Marketing management	282,849
Sales training meetings	317,576
Recruitment	58,590
Field sales training	<u>163,319</u>
Total	<u>7,862,806</u>
Contract servicing and claims:	
Application	947,767
Acreage reports	1,931,752
Inspections	1,795,248
Meetings	137,806
Contract service management	298,988
Recruitment	40,528
Field training	<u>13,675</u>
Total	<u>5,165,764</u>
Total operating and administrative expenses (note b)	<u>\$14,654,008</u>

<sup>a</sup>Differs from "agents' commissions" as shown on FCIC's income and expense statement (schedule 2) because "agents' agreements" includes salaries and adjustments which are included in personnel costs and prior year adjustments on schedule 2.

<sup>b</sup>Differs from operating and administrative expenses shown on schedule 2 because capital equipment valued at \$436 was erroneously expensed on the functional cost statement. The expense total as shown on schedule 2 is the correct amount.

## CHAPTER 3

### SCOPE OF AUDIT

Our audit was made in accordance with generally accepted auditing standards and included such tests of FCIC's accounting records and financial transactions and such other auditing procedures as we considered necessary because of the effectiveness of the system of internal control, including the audit work performed by the Office of the Inspector General, Department of Agriculture.

## CHAPTER 4

### OPINION ON FINANCIAL STATEMENTS

The accompanying financial statements (schedules 1 through 5) were prepared by the Corporation. As stated in note 3 to the statements, services and benefits, the estimated costs of which are not for the most part readily determinable, have been furnished to the Corporation by other Government agencies without charge. The most significant of these services and benefits is the use of Government funds without a requirement to pay interest. To offset some of this cost, however, the Treasury has the Corporation's large cash balance on deposit until needed without paying interest.

In our opinion, the financial statements present fairly the financial position of the Corporation at June 30, 1972, and the results of its operations and sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles and applied on a basis consistent with that of the preceding year and with applicable Federal laws.

## FEDERAL CROP INSURANCE CORPORATION

## COMPARATIVE STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1972 AND 1971

	Year ended June 30		Increase or decrease(-)
	<u>1972</u>	<u>1971</u>	
ASSETS			
CASH:			
Insurance program funds	\$36,247,396	\$15,852,188	\$20,395,208
Funds appropriated for operating and administrative expenses	<u>1,619,456</u>	<u>1,685,922</u>	<u>-66,466</u>
Total	<u>37,866,852</u>	<u>17,538,110</u>	<u>20,328,742</u>
ACCOUNTS AND NOTES RECEIVABLE			
Less estimated bad debts	<u>25,344,101</u>	<u>26,590,843</u>	<u>-1,246,742</u>
	<u>1,527,337</u>	<u>1,511,016</u>	<u>16,321*</u>
Total	<u>23,816,764</u>	<u>25,079,827</u>	<u>-1,263,063</u>
FURNITURE AND EQUIPMENT:			
Cost or transferred value	537,961	535,087	2,874
Less accumulated depreciation	<u>323,499</u>	<u>316,506</u>	<u>6,993*</u>
Total	<u>214,462</u>	<u>218,581</u>	<u>-4,119</u>
Total assets	<u>\$61,898,078</u>	<u>\$42,836,518</u>	<u>\$19,061,560</u>
LIABILITIES AND INVESTMENT			
ACCOUNTS PAYABLE AND OTHER LIABILITIES:			
Agents' commissions payable	\$ 636,619	\$ 673,620	\$ -37,001
Employees' accrued annual leave	840,806	868,431	-27,625
Estimated indemnities payable	1,061,760	5,641,215	-4,579,455
Accrued payroll and other liabilities	<u>1,085,185</u>	<u>1,392,109</u>	<u>-306,924</u>
Total	<u>3,624,370</u>	<u>8,575,375</u>	<u>-4,951,005</u>
DEFERRED PREMIUMS AND COSTS:			
1972 crop year premiums, less approved indemnity claims, reinsurance expense, and bad debt expense (note 1)	<u>19,808,328</u>	<u>20,346,289</u>	<u>-537,961</u>
Total liabilities	<u>23,432,698</u>	<u>28,921,664</u>	<u>-5,488,966</u>
PROVISION FOR SURETY LOSSES (note 5)	<u>75,000</u>	<u>75,000</u>	<u>-</u>
INVESTMENT OF U.S. GOVERNMENT:			
Capital stock (authorized \$100,000,000) issued and outstanding (note 4)	60,000,000	50,000,000	10,000,000
Insurance program deficit (schedule 4)	-21,044,689	-35,558,948	14,514,259
Administrative fund deficit (schedule 5)	<u>-564,931</u>	<u>-601,198</u>	<u>36,267</u>
Total investment of U.S. Government	<u>38,390,380</u>	<u>13,839,854</u>	<u>24,550,526</u>
Total liabilities and investment	<u>\$61,898,078</u>	<u>\$42,836,518</u>	<u>\$19,061,560</u>

\*Deduction

The notes following schedule 5 are an integral part of this statement.

SCHEDULE 2

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

FISCAL YEARS 1972 AND 1971

	Fiscal year 1972	Fiscal year 1971	Increase or decrease(-)
<b>INSURANCE OPERATIONS:</b>			
Premiums	\$ 47,865,576	\$44,348,312	\$ 3,517,264
Indemnities	<u>28,573,942</u>	<u>41,346,479</u>	<u>-12,772,537</u>
Excess of indemnities or premiums(-)	-19,291,634	-3,001,833	-16,289,801
Cost of loss adjustment	1,832,264	2,286,588	-454,324
Provision for losses on accounts receivable	255,814	213,662	42,152
Other expense or income(-)	<u>42,348</u>	<u>-181,847</u>	<u>224,195</u>
Net loss or income(-) from direct insurance operations	<u>-17,161,208</u>	<u>-683,430</u>	<u>-16,477,778</u>
Reinsurance premiums	62,189	59,282	2,907
Reinsurance commissions and claims	<u>22,746</u>	<u>29,178</u>	<u>-6,432</u>
Net loss or income(-) from reinsurance	<u>-39,443</u>	<u>-30,104</u>	<u>9,339</u>
Net loss or income(-) from insurance operations	<u>-17,200,651</u>	<u>-713,534</u>	<u>-16,487,117</u>
<b>OPERATING AND ADMINISTRATIVE EXPENSES:</b>			
Personnel compensation	9,526,380	9,574,896	-48,516
Personnel benefits	845,041	906,965	-61,924
Travel and transportation of persons	1,641,698	1,539,510	102,188
Transportation of things	55,685	21,134	34,551
Rent, communications and utilities	827,893	722,006	105,887
Printing and reproduction	102,725	93,867	8,858
Other contractual services	852,019	776,217	75,802
Agents' commissions	860,396	911,598	-51,202
Supplies and materials	50,973	32,541	18,432
Expendable equipment	20,172	11,994	8,178
Administrative claims	3,204	2,669	535
Depreciation expense	29,244	29,903	-659
Net loss on sale and transfer of equipment	1,618	-143	1,761
Accrued annual leave (note 6)	-27,625	11,301	-38,926
Prior year adjustments--other accrued operating and administrative expenses	<u>-135,852</u>	<u>-90,007</u>	<u>-45,845</u>
Total operating and administrative expenses	<u>14,653,571</u>	<u>14,544,451</u>	<u>109,120</u>
Lapsed appropriation adjustments	<u>306</u>	<u>-35</u>	<u>341</u>
Adjusted total operating and administrative expenses (note a)	<u>14,653,877</u>	<u>14,544,416</u>	<u>109,461</u>
<b>NET LOSS OR INCOME (-) FROM OPERATIONS</b>	<u>\$ -2,546,774</u>	<u>\$13,830,882</u>	<u>\$-16,377,656</u>

<sup>a</sup>\$2,819,916 paid from premium income in 1972 and \$2,629,235 paid from premium income in 1971, an increase of \$190,681 (note 2).

The notes following schedule 5 are an integral part of this statement.

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## FEDERAL CROP INSURANCE CORPORATION

## COMPARATIVE STATEMENT OF SOURCES AND APPLICATION OF FUNDS

FISCAL YEARS 1972 AND 1971

	Fiscal year <u>1972</u>	Fiscal year <u>1971</u>	Increase or decrease(-)
<b>FUNDS PROVIDED:</b>			
Premium income	\$47,865,576	\$44,348,312	\$ 3,517,264
Reinsurance premiums	62,189	59,282	2,907
Subscription to capital stock	10,000,000	-	10,000,000
Appropriation for operating and administrative expense	12,000,000	12,000,000	-
Reduction in prior years' operating and administrative expense paid from premium income	133,524	90,021	43,503
Interest income	3,126	5,216	-2,090
Miscellaneous income	-	176,631	-176,631
Decrease in working capital	-	<u>1,748,678</u>	<u>-1,748,678</u>
Total funds provided	<u>\$70,064,415</u>	<u>\$58,428,140</u>	<u>\$ 11,636,275</u>
<b>FUNDS APPLIED:</b>			
Cost of indemnities	\$28,573,942	\$41,346,479	\$-12,772,537
Reinsurance commissions and claims	22,746	29,178	-6,432
Cost of loss adjustment	1,832,264	2,286,588	-454,324
Operating and administrative expenses:			
Charged to appropriated funds	11,960,073	11,958,677	1,396
Charged to insurance funds	2,819,916	2,629,235	190,681
Purchase of fixed assets	26,744	14,381	12,363
Miscellaneous expense	45,474	-	45,474
Appropriation transfer to General Services Administration	423	2,777	-2,354
Debts receivable charged off	231,732	160,825	70,907
Increase in working capital	<u>24,551,101</u>	<u>-</u>	<u>24,551,101</u>
Total funds applied	<u>\$70,064,415</u>	<u>\$58,428,140</u>	<u>\$ 11,636,275</u>

The notes following schedule 5 are an integral part of this statement.

FEDERAL CROP INSURANCE CORPORATION

COMPUTATION OF INSURANCE RESERVE

FOR CROP YEAR 1971 AND CUMULATIVE FOR CROP YEARS 1948 THROUGH 1971

AS OF JUNE 30, 1972

Crop	Crop Year 1971			Loss Ratio (ratio of indemnities to premiums)
	Premiums	Indemnities	Excess of Premiums or Indemnities(-)	
Apple	\$ 368,476	\$ 387,572	\$ -19,096	1.05
Barley	1,016,291	307,118	709,173	.30
Bean	384,373	255,889	128,484	.67
Cherry	--	--	--	--
Citrus	2,614,368	1,737,088	877,280	.66
Combined Crop	484,496	66,973	417,523	.14
Corn	11,584,604	4,263,881	7,320,723	.37
Cotton	3,785,117	6,234,549	-2,449,432	1.65
Flax	315,427	215,921	99,506	.68
Grain Sorghum	1,442,573	846,396	596,177	.59
Grape	104,388	--	104,388	--
Oat	584,703	146,235	438,468	.25
Pea, Dry	54,320	30,797	23,523	.57
Pea, Green	257,048	152,420	104,628	.59
Peach	313,504	553,450	-239,946	1.77
Peanut	1,148,384	2,484,562	-1,336,178	2.16
Potato	--	--	--	--
Raisin	306,377	--	306,377	--
Rice	63,486	32,556	30,930	.51
Safflower	--	--	--	--
Soybean	3,921,314	2,820,604	1,100,710	.72
Sugar Beet	532,346	294,619	237,727	.55
Sugarcane	221,490	198,081	23,409	.89
Tobacco	5,070,879	1,957,019	3,113,860	.39
Tomato	34,881	14,101	20,780	.40
Tung Nut	--	--	--	--
Wheat	<u>13,256,731</u>	<u>5,574,111</u>	<u>7,682,620</u>	.42
Total	<u>\$47,865,576</u>	<u>\$28,573,942</u>	19,291,634	.60
Direct cost of loss adjustment(-)			-1,832,264	
Other income and expense(-), Net			-298,162	
Net income from reinsurance			<u>39,443</u>	
Net income or loss(-) from insurance operations excluding operating and administrative expenses			17,200,651	
Premium income applied to operating and administrative expenses			<u>-2,686,392</u> (note 2)	
Insurance Program Deficit(-)			<u>\$14,514,259</u>	

The notes following schedule 5 are an integral part of this statement.

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## Crop Years 1948 through 1971

<u>Premiums</u>	<u>Indemnities</u>	<u>Excess of Premiums or Indemnities(-)</u>	<u>Loss Ratio (ratio of indemnities to premiums)</u>
\$ 2,231,618	\$ 2,703,162	\$ -471,544	1.21
11,926,989	7,366,111	4,560,878	.62
5,277,849	5,983,771	-705,922	1.13
149,954	391,504	-241,550	2.61
21,217,770	38,561,671	-17,343,901	1.82
32,842,361	37,399,207	-4,556,846	1.14
98,700,973	94,088,996	4,611,977	.95
63,116,254	95,165,795	-32,049,541	1.51
14,577,192	11,439,119	3,138,073	.78
8,928,083	6,395,444	2,532,639	.72
522,105	585,052	-62,947	1.12
6,154,997	2,934,371	3,220,626	.48
502,430	329,614	172,816	.66
3,341,180	5,398,286	-2,057,106	1.62
4,337,067	5,588,108	-1,251,041	1.29
7,589,692	5,926,580	1,663,112	.78
1,269,604	2,668,998	-1,399,394	2.10
3,704,362	1,520,659	2,183,703	.41
516,490	242,442	274,048	.47
2,290	8,999	-6,709	3.93
37,583,997	31,037,910	6,546,087	.83
3,100,397	2,554,291	546,106	.82
819,350	291,413	527,937	.36
65,198,031	37,916,318	27,281,713	.58
313,735	226,528	87,207	.72
89,526	67,469	22,057	.75
<u>260,758,409</u>	<u>223,204,962</u>	<u>37,553,447</u>	.86
<u>\$654,772,705</u>	<u>\$619,996,780</u>	34,775,925	.95
		-22,886,104	
		-2,115,388	
		<u>170,408</u>	
		9,944,841	
		-30,989,530	
		<u>\$-21,044,689</u> (schedule 1)	

SCHEDULE 5

FEDERAL CROP INSURANCE CORPORATION

ANALYSIS OF DEFICIT IN ADMINISTRATIVE FUND

FOR FISCAL YEARS 1949 THROUGH 1972

	July 1, 1948 through <u>June 30, 1971</u>	Fiscal year 1972	July 1, 1948 through <u>June 30, 1972</u>
COMPUTATION OF DEFICIT:			
Administrative fund expenses:			
Total operating and administrative expenses	\$196,439,307	\$14,653,877	\$211,093,184
Less:			
Reimbursement from others	15,461	4,175	19,636
Premium income applied to operating and administrative expenses	<u>28,303,138</u>	<u>2,686,392</u>	<u>30,989,530</u>
Total	<u>168,120,708</u>	<u>11,963,310</u>	<u>180,084,018</u>
Deduct net appropriations:			
Appropriations	174,575,742	12,000,000	186,575,742
Less lapses, recisions and net transfers	<u>7,056,232</u>	<u>423</u>	<u>7,056,655</u>
Net appropriations	<u>167,519,510</u>	<u>11,999,577</u>	<u>179,519,087</u>
Administrative fund deficit (schedule 1)	\$ <u>601,198</u>	\$ <u>-36,267</u>	\$ <u>564,931</u>
ANALYSIS OF DEFICIT:			
Noncash charges:			
Accrued annual leave	\$ 868,431	\$ -27,625	\$ 840,806
Depreciation	422,401	29,244	451,645
Net loss on equipment disposition	23,075	1,618	24,693
Equipment adjustment	59,527	-	59,527
Depreciation adjustment	<u>24,487</u>	<u>-</u>	<u>24,487</u>
Total	1,397,921	3,237	1,401,158
Less:			
Furniture and equipment acquisitions capitalized	748,071	26,744	774,815
Undelivered orders	<u>48,652</u>	<u>12,760</u>	<u>61,412</u>
Administrative fund deficit	<u>\$ 601,198</u>	<u>\$ -36,267</u>	<u>\$ 564,931</u>

The notes following this schedule are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTSJUNE 30, 19721. Accounting Basis

Insurance operations shown for fiscal year 1972 relate principally to the 1971 crop year. Crop year 1972 premiums and unapplied cash collections totaling \$20,315,152 have been deferred for inclusion in fiscal year 1973 accounts. In a like manner the estimate of possible losses in the collection of 1972 crop year premiums and approved 1972 crop year indemnities have been deferred. These two items total \$506,824.

Operating and administrative expenses are not allocated to crop years but are recorded and accounted for in the fiscal year in which the expense was paid or incurred.

2. Source of Funds for Operating and Administrative Expenses

The Corporation received an appropriation of \$12,000,000 (Public Law 92-73, approved August 10, 1971) for fiscal year 1972. The Law also provided that the Corporation may pay up to \$3,451,000 of operating and administrative expenses from premium income. In addition, the Second Supplemental Appropriations Act, 1972 (Public Law 92-306, approved May 27, 1972) provided that the Corporation may pay up to \$136,000 of operating and administrative expenses from premium income. This made a total of \$3,587,000. The operating and administrative expenses paid from premium income consisted of \$2,819,916 for expenses applicable to fiscal year 1972, less an adjustment of \$133,525 for prior fiscal years' expenses.

3. Services and Benefits Furnished the Corporation

Services and benefits, the estimated costs of which are not for the most part readily determinable, have been furnished to the Corporation by other Government agencies without charge. Among these are rentals for field office space paid by the General Services Administration, audit and investigative services provided by the Office of the Inspector General of the Department of Agriculture,

legal services rendered by the Department of Agriculture and Justice, and disbursing services furnished by the Treasury Department. The Corporation is not required to pay interest on the Government's investment in capital stock (\$60,000,000 at June 30, 1972) and does not receive interest on its funds on deposit with the Treasury (\$36,247,396 at June 30, 1972).

#### 4. Investment of U.S. Government

A net loss of \$73,000,000 was sustained from insurance operations through the 1947 crop year. The loss was offset by cancellation of an equal amount of outstanding capital stock pursuant to Section 5 of the Act of August 25, 1949 (63 Stat. 665). In August 1955, the Secretary of the Treasury subscribed and paid for \$13,000,000 of the unissued capital stock pursuant to the Supplemental Appropriation Act, 1957 (70 Stat. 678). During fiscal year 1970, an additional \$10,000,000 of capital stock was subscribed to by the Secretary of the Treasury of the United States of America. Pursuant to Public Law 91-127, approved November 26, 1969, the amount of \$10,000,000 was credited to the Federal Crop Insurance Corporation Fund. During fiscal year 1972, an additional \$10,000,000 of capital stock was subscribed to by the Secretary of the Treasury of the United States of America. Pursuant to Public Law 92-73, approved August 10, 1971, the amount of \$10,000,000 was credited to the Federal Crop Insurance Corporation Fund. During fiscal year 1962, the accumulated deficit from appropriated funds was reduced by \$50,097,996, which represented the total expense for fiscal years 1938 through 1948. This adjustment was made in order to report operating and administrative expenses on a basis comparable with operations of the insurance fund.

#### 5. Contingent Liabilities

The Corporation customarily has a contingent liability under the Federal Tort Claims Act for various unresolved small claims arising out of automobile accidents or for other wrongful acts of employees. Corporation officials believe the reserve for surety losses which was established in lieu of bonding of employees is sufficient to cover any liability that may arise.

6. Accrued Annual Leave Liability

The decrease in the unfunded annual leave liability represents the fiscal year change through pay period 12, or through June 24, 1972.

Lump-sum payments subsequently made to employees taking advantage of the cost-of-living annuity increase amounted to \$43,569.06. This amount is included in the statements as personnel compensation.

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 PRINCIPAL OFFICIALS RESPONSIBLE FOR  
 ADMINISTRATION OF ACTIVITIES  
 DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF AGRICULTURE</u>		
SECRETARY OF AGRICULTURE:		
Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971
UNDERSECRETARY OF AGRICULTURE:		
J. Phil Campbell, Jr.	Jan. 1969	Present
<u>FEDERAL CROP INSURANCE CORPORATION</u>		
BOARD OF DIRECTORS:		
Assistant Secretary for International Affairs and Commodity Programs:		
Carroll G. Brunthaver (note a)	June 1972	Present
Clarence D. Palmbly	June 1969	June 1972
Manager, FCIC:		
Richard H. Aslakson	June 1969	Present
Industry member:		
Fred W. Benson	July 1969	Present
Elmo A. Carlson	July 1969	Present
CORPORATION OFFICIALS:		
Richard H. Aslakson, Manager	Feb. 1969	Present
David W. McElwrath, Deputy Manager	Apr. 1972	Present
Frank Naylor, Jr., Deputy Manager	May 1969	Mar. 1972

<sup>a</sup>Member of the Board since June 1969 as Associate Administrator, Agricultural Stabilization and Conservation Service.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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